

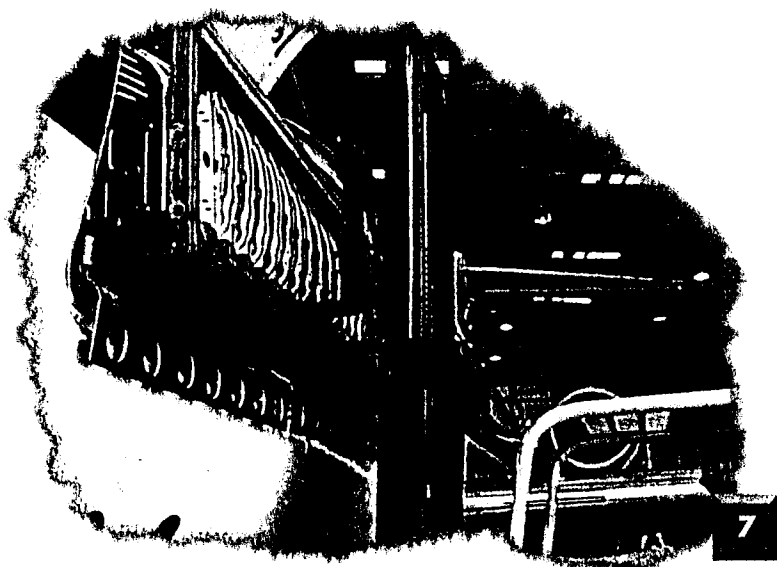
Computer-networked maps in the Control Center show availability of a variety of types of aircraft in real-time including "cost-saver" aircraft which are returning to their home-base empty unless contracted for a "back-haul."

The automotive industry accounts for a significant portion of all on-demand, same-day air freight charters in North America. Because auto makers generally carry less inventory than in the past, and have implemented just-in-time inventory systems, unanticipated parts shortages occur more frequently. By transferring emergency parts across auto makers' supplier networks, on-demand charters save auto makers thousands of dollars over the high cost of shutting down assembly plants.

Cost-saver deliveries are another way Kitty Hawk reduces customer costs. On-demand flights are generally one-way deliveries for which a customer is charged not only for the delivery flight, but also for the trip of the aircraft back to its home-base. By filling the empty aircraft with cargo on the return trip, Kitty Hawk creates a "back-haul," that increases the company's profits and reduces costs for both the original on-demand customer and the back-haul customer.

Because Kitty Hawk is the largest on-demand charter manager in North America, it is often able to create a back-haul. Real-time computer maps in the Control Center indicate all "cost-saver" aircraft available, categorized by type of aircraft, for quick reference by the account managers in arranging aircraft.

A pallet of car doors is removed from a Kitty Hawk on-demand charter carrying dozens of doors being delivered to an Arlington, Texas auto plant from Ypsilanti, Michigan



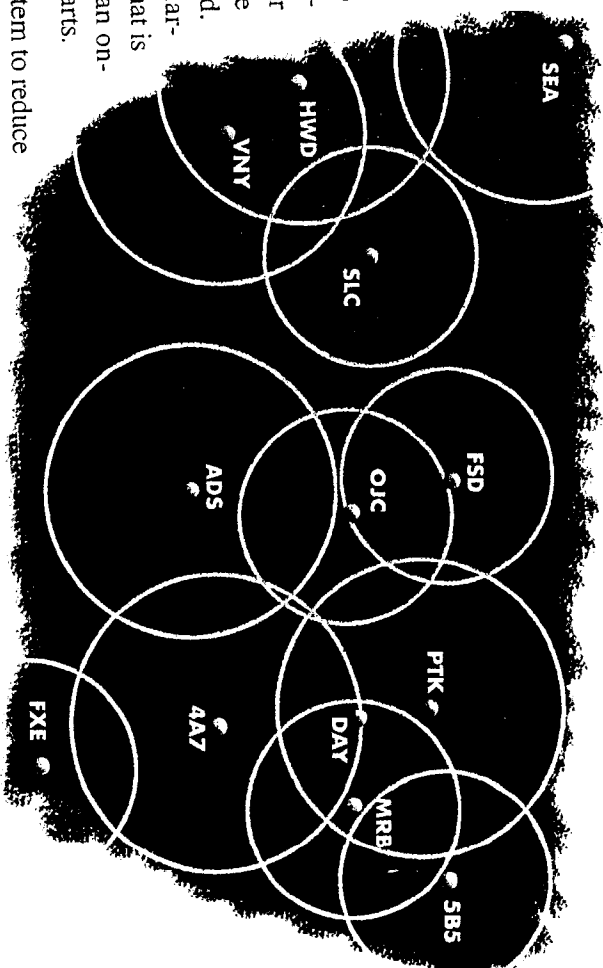
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y maintaining large, complicated, expensive inventories in virtually every large city, many high tech firms are able to maintain expensive, customer-owned computer systems, even when a rare replacement part is needed. Often these companies guarantee a limited downtime that is too short even to wait for an on-demand charter carrying parts.

Kitty Hawk created a system to reduce the inventory and warehouse costs of customers who need replacement parts across the United States by establishing and managing a system of emergency parts support warehouses strategically located across the country. Kitty Hawk has arranged suitable aircraft on standby at these locations for emergency calls.

When a call for a replacement part is received at Kitty Hawk's control center, an aircraft is immediately dispatched with the part from the closest warehouse. Typically, replacement parts are delivered to their destinations in one hour. With Kitty Hawk ready to fly at a moment's notice from these emergency parts support warehouses, manufacturers can cut their inventory and carrying costs by many millions of dollars.

A major computer manufacturer contracts with Kitty Hawk for emergency parts support under this program, which is serving as a model for other companies that could gain benefits from this type of service.



Kitty Hawk maintains a series of emergency parts support warehouses to swiftly handle regional parts inventories that can be delivered to almost anywhere within one hour.

The fuselages of

Kitty Hawk

aircraft are



RELIANT AIRLINES, INC.
STATEMENT OF INCOME AND RETAINED EARNINGS
Years Ended December 31,

	<u>1994</u>	<u>1993</u>	<u>1992</u>
REVENUES	\$24,086,362	\$13,877,843	\$ 9,570,978
COSTS AND EXPENSES:			
Direct	13,794,801	7,875,316	6,185,074
General and administrative	3,826,310	2,690,454	2,015,540
Depreciation	1,416,003	1,037,123	816,874
Interest	<u>-0-</u>	<u>11,681</u>	<u>35,071</u>
Total costs and expenses	<u>19,037,114</u>	<u>11,614,574</u>	<u>9,052,559</u>
OPERATING INCOME	<u>5,049,248</u>	<u>2,263,269</u>	<u>518,419</u>
OTHER INCOME:			
Interest income	172,763	102,858	210,132
Miscellaneous	<u>-0-</u>	<u>20,440</u>	<u>36,651</u>
Total other income	<u>172,763</u>	<u>123,298</u>	<u>246,783</u>
NET INCOME	5,222,011	2,386,567	765,202
BEGINNING RETAINED EARNINGS	10,613,341	8,293,807	8,453,262
Dividends	<u>(1,160,745)</u>	<u>(67,033)</u>	<u>(924,657)</u>
ENDING RETAINED EARNINGS	<u>\$14,674,607</u>	<u>\$10,613,341</u>	<u>\$ 8,293,807</u>

See accountants' compilation report.

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April 30, 1997

BUY

KITTY HAWK, INC. (KTTY)

Reported 1Q 1997 EPS Of \$0.14 Versus \$0.02, In Line With Expectations

Price	52-Week*	EPS (FY: Dec.)			Cal. Yr. P/E		Indicated	
4/30/97	Price Range	1996A	1997E	1998E	1997E	1998E	Dividend	Yield
13 3/4	15 - 8	\$0.98	\$1.20	\$1.45	11.5x	9.5x	\$0.00	Nil
Shares Outstanding: 10.7 million					DJIA: 7008.99			
Market Value Of Common: \$147.1 million					S&P 500: 801.30			
Average Daily Volume: 23,590 shares					Est. 3-5 Year Growth Rate: 15%			
Estimated Float: 3.0 million shares					HQ: Dallas, TX			

*Since 10/9/96 IPO priced at 12.

INVESTMENT HIGHLIGHTS

- Kitty Hawk reported 1Q 1997 EPS -- \$0.14 versus \$0.02, in line with Street consensus and \$0.01 off our \$0.15 estimate. The 1Q 1996 was impacted by weak Air Freight Carrier operating results.
- Boosted by recently added aircraft, sales increased 39% in the 1Q, including a 48% increase in the Air Freight Carrier side. A 9.1% operating margin compared with 3.3% last year.
- Although falling slightly short of our model, operations continue generally on plan, with 3 remaining purchased 727 aircraft (finishing cargo modifications) scheduled to be added by July.
- We continue to expect minimal impact from likely FAA directive regarding 727 cargo conversions.
- No change to our 1998 EPS estimate -- Our 1997 EPS estimate of \$1.20 includes \$0.01 taken out of the 2Q.
- We are maintaining our "buy" rating -- 6-12 month price target of \$17 (12x estimated 1998 EPS).

KITTY HAWK REPORTED 1Q 1997 EPS OF \$0.14 VERSUS \$0.02

Kitty Hawk reported 1Q 1997 EPS of \$0.14 versus \$0.02 last year. The report was in line with consensus estimates, and \$0.01 shy of our \$0.15 expectation. A review of line item performance follows.

Revenue Generally On Plan. Total sales in the quarter of \$28.1 million represented a 39% increase versus \$20.3 million in the 1Q 1996. The growth was driven in part by a 48% increase in Air Freight Carrier sales, which totaled \$14.9 million (we were looking for \$16.1 million). The quarter included 4 additional aircraft (727s) over the year-ago levels. Although an additional aircraft to be added in the quarter was delayed somewhat by maintenance issues, the Company made up for part of the top-line shortfall with improved aircraft utilization. Flight hours in the quarter increased 36% to 5,830 from 4,292 last year, with revenue per flight hour jumping an impressive 9% to \$2,554 from \$2,344 last year. Air Logistics revenue increased a solid 30% versus last year's results to \$13.2 million (we were looking for \$14.3 million). Although business with GM remains slightly below prior run-rate highs (off around 8-10 charters per day from peak), the Company has been successful at penetrating new accounts. The salesforce in the Air Logistics division has been increased in the quarter to generate further market share gains in the air charter market.

Margin Trends Remain On Track. Profitability in the quarter remained solid, with gross margin rising to 19.1% from 14.0% last year. Air Freight Carrier gross profit margin was 27.0% versus 17.9% last year, while the Air Logistics margin remained solid at 10.1%, even with last year's. We have assumed modest improvement in the Air Logistics margin as the Company increases its percentage of sales with non-GM customers. The 4Q is generally stronger due to superior profitability on the contract with the U.S. Postal Service. The Company demonstrated some leverage on overhead expenses in the quarter, assisting in the overall improvement in the operating margin to 9.1% from 3.3% last year. A net margin of 5.0% (fully taxed at 40% rate) in the quarter compared with 0.7% last year.

KITTY HAWK'S OPERATING PLAN LOOKS TO BE ON TRACK

Aircraft Addition Schedule. The Company's aircraft addition plan appears to be on track to be completed by the start of the 2H 1997. The Company expects to complete the addition of its 5 new 727s by the beginning of July, which is in line with our earnings model (although behind for the reported 1Q). Additionally, further opportunities for new aircraft additions may be presented over the coming several quarters. Any new aircraft would be incremental to our model and earnings forecast.

FAA Directive Not Likely To Impact Kitty Hawk. In spite of ongoing concern by some industry observers over the upcoming FAA directive regarding 727 cargo conversions (expected over coming month), we do not expect any impact to Kitty Hawk from the service bulletin. The FAA is expected to require modifications to the 727's cargo doors and floor structures, and will probably reduce allowable weights by some amount until the conversion is completed (possibly down to 4,000 lbs. per pallet position). Management believes that the cost of the conversions will be nominal (under \$50,000), and that no earnings impact will result from the move, given existing contracts stipulating payment for hours flown, rather than weight carried. We note that there has been no halt to ongoing modifications currently in process.

REVIEW OF INVESTMENT HIGHLIGHTS

We believe Kitty Hawk is capable of 15%, 3-5 year EPS growth, driven by a combination of top-line growth and margin expansion from an improved mix of business. Highlights of the Company's market position include the following.

- **Growing International Airfreight Market.** The world airfreight market has shown consistent annual growth (9+% over the last decade), and is forecasted to remain strong for the coming decade (around 7% annually, with stronger growth in the Asian region). Kitty Hawk, with an international customer base, is poised to benefit from overall freight market growth.
- **Growth Of ACMI Services.** Impressive freight demand, coupled with capital constraints for integrated airfreight carriers, has resulted in increased demand for ACMI charter services. ACMI contracts generally require Kitty Hawk to provide aircraft, crew, maintenance and insurance (ACMI), while the customers are responsible for all other operating expenses (such as fuel) and the marketing of the capacity. Kitty Hawk, which participates in the largest ACMI freight aircraft market (Boeing 727s), is positioned to leverage growth well in excess of the overall global airfreight market.
- **Strong Air Logistics Demand.** Demand for air logistics charter services has been driven by the adoption of JIT inventory management and increased sophistication in airfreight transportation. Kitty Hawk's growth strategy in this market is focused on expanding its customer base and increasing penetration in commodities not currently served. Kitty Hawk is a leading provider of expedited air logistics services in the U.S., providing same-day, door-to-door charter service with complete tracking "visibility." Competitive advantages in information systems and operational scale should help as shippers reduce the number of vendors with which they work.

ESTIMATES -- NO SIGNIFICANT CHANGES

We have not made any changes to our 1998 EPS estimate of \$1.45, and have opted to take \$0.01 out of our 2Q 1997 EPS estimate, resulting in full-year 1997 EPS of \$1.20, versus our prior estimate of \$1.22. We are assuming 1997 sales and net income growth of 28% and 23%, respectively, and 11% and 21%, respectively, for 1998. The assumed margin expansion is expected principally from the inclusion of the higher margin air freight carrier business for the full-year 1998 with the full 29 aircraft fleet. Incremental aircraft additions are likely over this time frame, in our opinion, which would provide some upside to our estimates.

VALUATION - 6-12 MONTH PRICE TARGET OF \$17

The shares are trading at 9.5x our 1998 EPS estimate of \$1.45, representing a substantial discount to the market multiple and that of many comparable air freight companies, which we believe reflects ongoing concern over the impact of the expected FAA release and the perceived operational impact on Kitty Hawk. As we are fairly comfortable that the Company will see little or minimal impact from this issue, we would look for this multiple to recover in the coming months as the Company executes its aircraft addition schedule. A target multiple of 12x our 1998 EPS estimate of \$1.45 implies a 6-12 month price target of \$17 (24% upside potential from the current price).

Company Summary -- Kitty Hawk, based in Dallas, TX, is a major provider of airfreight services, including: (1) the Company is one of the largest domestic providers of expedited, same-day airfreight logistics services; and (2) Kitty Hawk's airfreight carrier is one of the largest (currently 29 aircraft) operators of aircraft under ACMI contracts with major domestic and international freight forwarders. The Company generated 1996 sales of \$133 million (58% from air logistics and 42% from the airfreight carrier), and has added 7 aircraft to its fleet recently, with the last aircraft expected to be operational by the 2H 1997. Kitty Hawk completed its IPO in October 1996 (\$12 per share).

Annual Income Statement
Fiscal Year Ended December 31
(in thousands)

	1991	%Chg	1992	%Chg	1993	%Chg	1994	%Chg	1995	%Chg	1996	%Chg	CY Actual 1995	%Chg	CY Actual 1996	%Chg	CY Estimated 1997	%Chg	CY Estimated 1998	%Chg
Air Logistics	\$2,260	150.2%	\$45,893	68.4%	\$52,840	15.1%	\$79,415	50.3%	\$62,593	-21.2%	\$89,493	43.0%	\$80,942	-4.0%	\$77,168	-4.7%	\$93,177	20.7%	\$105,351	13.1%
Air Freight Carrier	6,121	12.1%	6,760	10.4%	12,939	91.4%	28,265	118.6%	41,118	45.4%	52,922	28.7%	40,938	-28.7%	55,504	35.6%	67,419	37.7%	87,125	7.5%
Total Revenues	33,381	104.1%	52,653	51.7%	65,779	24.9%	107,700	63.7%	103,710	-3.7%	142,415	37.3%	121,879	-16.6%	132,672	8.9%	169,596	27.8%	182,476	10.5%
Air Logistics			42,037		46,288		73,402		57,428		80,140		72,308		67,938		80,974		91,224	
Air Freight Carrier			6,427		8,912		19,550		28,104		38,760		28,872		40,860		54,150		57,853	
Total Cost of Sales	28,100	125.4%	48,464	72.5%	55,201	13.9%	92,951	68.4%	85,533	-8.0%	118,900	39.0%	101,180	-16.6%	108,798	7.5%	135,124	24.2%	149,177	10.4%
Air Logistics			3,856		6,552		6,013		5,164		9,353		8,634		9,230		12,203		14,127	
Air Freight Carrier			332		4,026		8,735		13,013		14,161		12,066		14,645		22,270		24,172	
Gross Profit	5,281	35.8%	4,188	-20.7%	10,578	152.6%	14,749	39.4%	18,178	23.2%	23,515	29.4%	20,689	-11.8%	23,874	15.3%	34,472	44.4%	38,299	11.1%
G&A (a)	3,827	17.5%	2,931	-23.4%	4,644	58.5%	6,745	45.2%	7,832		9,080		8,313		8,943	7.6%	9,728	8.8%	9,820	0.9%
Profit Sharing	0		0		0		0		1,001		1,170		1,351		1,243		0		0	
Stock Option Grant	0		0		0		0		0		4,231		0		4,231		2,542		2,964	
Operating Income	1,454	130.8%	1,258	-13.5%	5,934	34.9%	8,004	34.9%	9,345	16.8%	9,034	-3.3%	11,036	22.0%	9,457	-14.3%	22,202	134.8%	25,515	14.9%
Interest Expense	(132)		(157)		(134)		(143)		(1,185)		(1,859)		(1,338)		(2,062)		(2,196)		(1,845)	
Contract Settlement Income, Net (b)	0		0		725		1,178		0		0		0		0		0		0	
Other Income (Expense) (c)	(49)		287		193		(432)		(601)		(298)		(505)		291		972		1,745	
Pretax Income	1,273	NM	1,388	9.0%	6,718	NM	8,407	25.1%	7,559	-10.1%	6,877	-9.0%	9,093	NM	7,686	-15.5%	20,976	172.8%	25,415	21.1%
Pro Forma Income Taxes	427		375		2,613		3,146		3,143		2,768		4,021		3,038		8,391		10,168	
Tax Rate	33.5%		27.0%		38.9%		37.4%		41.6%		40.2%		44.2%		39.5%		40.0%		40.0%	
Net Income	846	NM	1,013	19.7%	4,105	NM	5,261	28.2%	4,416	-18.1%	4,109	-7.0%	5,072	NM	4,648	-8.4%	12,587	170.8%	15,249	21.2%
Earnings/Share	\$0.08	NM	\$0.12	39.3%	\$0.52	NM	\$0.66	28.2%	\$0.55	-18.0%	\$0.52	-6.5%	\$0.64	NM	\$0.55	-13.8%	\$1.20	119.0%	\$1.45	21.0%
Shares Out	10,069	0.0%	8,671	-14.1%	7,968	8.1%	7,968	0.0%	7,968	0.0%	7,928	-0.5%	7,968	NM	8,475	8.4%	10,481	23.7%	10,490	0.1%
Pro Forma EPS (excludes all non-recurring charges)									\$0.65		\$0.97	49.2%	\$0.73		\$0.98	33.5%	\$1.20	22.5%	\$1.45	21.0%
Shares Out									7,968		7,928	-0.5%	7,968		8,475	8.4%	10,481	23.7%	10,490	0.1%
Margin Analysis																				
Revenues		100.0%		100.0%		100.0%		100.0%		100.0%		100.0%		100.0%		100.0%		100.0%		100.0%
Gross Profit - Air Logistics		8.4%		7.6%		7.6%		7.6%		8.3%		10.5%		10.7%		12.0%		13.1%		13.4%
Gross Profit - Air Freight Carrier		4.9%		30.9%		30.9%		31.6%		31.6%		26.8%		29.5%		26.4%		29.1%		29.4%
Gross Profit		15.8%		13.7%		13.7%		17.5%		17.5%		16.5%		17.0%		18.0%		20.3%		20.4%
SG&A		11.5%		6.3%		6.3%		7.6%		7.6%		6.4%		6.8%		6.7%		5.7%		5.2%
Operating Income		4.4%		0.3%		0.3%		9.0%		9.0%		6.3%		9.1%		7.1%		13.1%		13.6%
Interest Expense Net		0.4%		0.2%		0.2%		1.1%		1.1%		1.3%		1.1%		1.6%		1.3%		1.0%
Pretax Income		3.6%		0.2%		0.2%		7.3%		7.3%		4.8%		7.5%		5.8%		12.4%		13.6%
Net Income		2.5%		1.9%		1.9%		4.3%		4.3%		2.9%		4.2%		3.5%		7.4%		8.1%
EBIT																				
Depreciation and Amortization																				
EBITDA																				
EBITDA Margin																				
Capital Expenditures																				
EBITDA-Capex																				
Operating Data																				
Air Logistics, Managed Charters	6,514		8,708		9,748		16,713		14,198		16,043									
Air Freight Carrier																				
Active Owned Aircraft (end of period)	9		11		10		15		21		22									
On Demand (Logistics) Charters	377		292		752		1,182		1,238		1,448									
ACMI Contract Charters	257		655		1,314		1,734		2,601		3,493									

(a) G&A expenses in 1993-1995 include special bonuses of \$0.60 M, \$0.65 M and \$0.90 M, respectively.

(b) Contract settlement income in 1993-1994 is related to litigation settlement with USPS.

(c) 1995 (FY & CY) other income (expense) includes \$0.73 M in expenses related to attempted 1994 IPO.

(d) 1996 excludes \$4.2 M (pretax) option grant to Company officer.

(e) FY 1996 excludes \$1.1 M in non-recurring expenses (\$0.6 M from other expenses and \$0.5 M from COGS).

Source: Company reports, Alex. Brown estimates.

Quarterly Income Statement
Fiscal Year Ended December 31
(\$ thousands)

	1996					Estimated 1997					Estimated 1998				
	1Q	2Q	3Q	4Q	1996	1Q	2Q	3Q	4Q	1997	1Q	2Q	3Q	4Q	1998
Air Logistics	\$10,195	\$16,815	\$16,134	\$34,024	\$77,168	\$13,215	\$17,193	\$21,171	\$41,508	\$93,177	\$15,559	\$19,750	\$24,389	\$45,653	\$105,351
Air Freight Carrier	10,059	15,215	14,341	15,889	55,504	14,868	19,333	20,559	21,639	76,412	19,593	20,259	20,633	21,641	82,125
Total Revenues	20,254	32,031	30,475	49,913	132,672	28,103	36,526	41,730	63,137	169,589	35,152	40,009	45,022	67,294	187,476
Air Logistics	9,155	15,113	14,872	28,799	67,948	11,875	15,285	18,801	35,013	80,974	13,812	17,580	21,764	38,077	91,224
Air Freight Carrier	8,256	12,085	9,348	11,172	40,861	10,873	13,630	14,351	15,296	54,150	13,872	14,181	14,536	15,365	57,953
Total Cost of Sales	17,411	27,197	24,219	39,971	108,768	22,748	28,915	33,152	50,309	135,124	27,684	31,761	36,299	53,442	149,177
Air Logistics	1,040	1,703	1,262	5,225	9,230	1,340	1,908	2,370	6,245	14,203	1,747	2,170	2,635	7,576	14,127
Air Freight Carrier	1,803	3,131	4,993	4,717	14,645	4,015	5,703	6,168	6,364	22,203	5,721	6,078	6,097	6,276	24,172
Gross Profit	2,843	4,833	6,255	9,942	23,874	5,355	7,611	8,538	12,969	34,472	7,468	8,247	8,732	13,652	38,299
USA	2,271	2,301	2,305	2,066	8,943	2,513	2,400	2,400	2,415	9,728	2,500	2,420	2,460	2,440	9,820
Profit Sharing	(91)	58	477	799	1,243	271	517	612	1,142	2,542	460	550	700	1,254	2,564
Stock Option Grant	0	4,232	(11)	0	4,231	0	0	0	0	0	0	0	0	0	0
Operating Income	663	(1,758)	3,475	7,077	9,457	3,571	4,594	5,526	9,412	22,207	4,508	5,277	5,572	10,158	25,515
Interest Expense	(520)	(504)	(507)	(532)	(2,162)	(481)	(600)	(575)	(540)	(2,196)	(500)	(475)	(450)	(420)	(1,845)
Other Income & Expense	102	36	(464)	617	291	267	175	230	300	972	375	450	380	540	1,745
Pre-tax Income	245	(2,226)	2,504	7,163	7,586	2,357	4,269	5,181	5,172	20,918	4,353	5,252	5,502	10,278	25,415
Income Taxes	56	(927)	1,096	2,774	3,038	943	1,707	2,072	3,869	6,351	1,753	2,101	2,201	4,111	10,166
Net Income	189	(1,353)	1,408	4,389	4,548	1,414	2,561	3,108	5,503	12,567	2,600	3,151	3,301	6,167	15,249
Earnings/Share															
Basic	\$0.02	(\$0.16)	\$0.18	\$0.43	\$0.55	\$0.14	\$0.24	\$0.30	\$0.52	\$1.20	\$0.25	\$0.30	\$0.31	\$0.59	\$1.45
Diluted	7,968	7,968	7,750	10,215	8,475	10,432	10,450	10,490	10,490	10,461	10,490	10,490	10,490	10,490	10,490
Pro Forma EPS															
Basic	\$0.02	\$0.16	\$0.31	\$0.43	\$0.98	\$0.14	\$0.24	\$0.30	\$0.52	\$1.20	\$0.25	\$0.30	\$0.31	\$0.59	\$1.45
Diluted	7,968	7,968	7,750	10,215	8,475	10,432	10,450	10,490	10,490	10,461	10,490	10,490	10,490	10,490	10,490
Margin Analysis															
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	10.2%	10.1%	7.8%	15.4%	12.0%	10.1%	11.1%	11.2%	15.8%	13.1%	11.2%	11.0%	10.8%	16.6%	13.4%
Gross Profit	17.9%	20.6%	34.8%	29.7%	26.4%	27.0%	29.5%	30.0%	29.5%	29.5%	29.2%	30.0%	29.6%	29.0%	29.4%
Operating Income	11.2%	15.1%	20.5%	19.5%	18.0%	12.1%	13.8%	14.5%	14.5%	13.3%	21.2%	20.6%	19.4%	20.6%	20.4%
Pre-tax Income	3.3%	-5.5%	11.4%	14.2%	7.1%	8.9%	6.6%	5.8%	3.8%	5.7%	7.1%	6.0%	5.5%	3.6%	5.2%
Income Taxes	2.6%	1.6%	1.7%	1.1%	1.6%	3.1%	12.9%	13.2%	13.1%	13.1%	12.8%	13.2%	12.4%	15.1%	13.8%
Net Income	0.7%	-6.9%	8.2%	14.4%	5.8%	1.7%	1.8%	1.4%	0.9%	1.3%	1.4%	1.3%	1.0%	0.6%	1.0%
Return on Equity	0.7%	-4.1%	4.6%	8.8%	3.5%	5.0%	1.7%	1.4%	1.4%	12.4%	12.5%	13.1%	12.2%	15.3%	13.6%
Return on Assets	3.1%	47.8%	-13.3%	-17.2%	-4.7%	7.0%	7.0%	7.4%	8.7%	7.4%	7.5%	7.9%	7.3%	9.2%	8.1%
Air Logistics	22.6%	68.3%	40.6%	17.7%	35.0%	29.6%	2.2%	31.2%	22.3%	20.7%	17.7%	14.9%	15.2%	9.7%	13.1%
Air Freight Carrier	11.9%	56.9%	5.8%	-8.5%	8.9%	48.0%	27.1%	43.4%	36.2%	37.7%	31.6%	4.8%	0.4%	0.0%	7.5%
Total Revenues	66.5%	74.0%	-41.1%	5.5%	6.9%	38.8%	14.0%	36.9%	26.7%	27.8%	25.1%	9.5%	7.9%	6.4%	10.5%
Air Logistics	5.9%	11.2%	109.7%	-4.8%	21.4%	28.9%	12.0%	67.8%	26.1%	32.2%	30.3%	13.7%	11.2%	15.0%	15.8%
Air Freight Carrier	15.0%	27.4%	38.2%	0.4%	15.3%	12.6%	8.7%	23.5%	35.3%	52.1%	42.5%	6.6%	-1.1%	-1.7%	8.5%
Total Operating Income	14.2%	NM	104.0%	0.9%	-14.3%	18.3%	57.5%	36.5%	30.3%	41.4%	39.5%	8.4%	2.3%	6.9%	11.1%
Pre-tax Income	-32.5%	NM	285.2%	6.3%	-15.5%	NM	NM	5.1%	33.0%	134.8%	75.3%	12.4%	0.8%	7.9%	14.9%
Net Income	-33.6%	NM	7.7%	8.4%	-8.4%	NM	NM	NM	25.4%	NM	85.0%	23.0%	6.2%	12.1%	21.1%
Pro Forma EPS	-33.6%	53.4%	-100.0%	-16.0%	33.5%	NM	57.0%	4.4%	22.1%	22.5%	85.3%	23.0%	6.2%	12.1%	21.2%

Source: Company reports Alex Brown

Kitty Hawk, Inc.
Statement of Cash Flows
Fiscal Year Ended December 31
(\$ thousands)

	FY August				Estimated Calendar Year		
	1993	1994	1995	1996	1996	1997	1998
Cash Flows From Operations:							
Net Income (Loss)	\$4,105	\$5,261	\$4,416	\$4,109	\$4,648	\$12,587	\$15,249
Adjustments to reconcile net income (loss) to net cash from operations:							
Depreciation and amortization	977	1,935	4,095	6,873	8,393	10,000	10,000
(Gain) loss disposal of PP&E	(42)	62	0	589	589	0	0
Aircraft received in contract settlement	0	(750)	0	0	0	0	0
Deferred income taxes	1,187	(639)	733	999	1,171	0	0
Stock option grant to executive	0	0	0	4,231	4,231	0	0
Deferred income	(83)	0	0	0	0	0	0
Change in assets and liabilities							
accounts & notes receivable	(3,283)	(8,090)	3,154	(1,228)	3,095	(9,282)	(4,967)
contract settlement receivable	(3,500)	3,500	0	0	0	0	0
income taxes receivable	0	0	0	(765)	0	0	0
aircraft supplies (inventories)	(16)	(20)	23	(1,515)	(2,393)	(963)	(390)
prepaid expenses and other	(137)	283	(533)	(121)	70	(0)	0
accounts payable and accruals	4,849	4,443	(950)	4,166	2,301	8,795	4,544
income taxes payable	269	1,615	(1,884)	0	(256)	0	0
Net cash provided (used) by operating activities	(1,817)	1,731	(188)	436	2,816	(1,450)	(813)
Net Cash from Operating Activities	4,326	7,601	9,056	17,237	21,849	21,136	24,436
Cash Flows From Investing Activities:							
Capital expenditures	(1,318)	(13,876)	(17,929)	(33,538)	(47,159)	(15,000)	(3,000)
Proceeds from sale of PP&E	1,098	0	0	0	18,508	0	0
Net Cash Used in Investing Activities	(220)	(13,376)	(17,929)	(33,538)	(28,650)	(15,000)	(3,000)
Cash Flows from Financing Activities:							
Issuance of common stock	0	0	0	4	29,343	0	0
Issuance of long-term debt	0	10,917	9,911	23,117	18,892	0	0
Repayments of long-term debt	(1,391)	(2,748)	(2,075)	(3,187)	(15,819)	(3,080)	0
Acquisition of treasury shares	0	0	0	(2,076)	(2,076)	0	0
Tax benefit of option grant to executives	0	0	0	405	405	0	0
Shares issued under annual compensation incentives	0	0	0	0	22	0	0
Net Cash Used in Financing Activities	(1,391)	8,169	7,836	18,263	30,766	(3,080)	0
Decrease (increase) in Cash and Equivalents	2,715	1,894	(1,037)	1,963	23,965	3,056	21,436
Beginning cash and equivalents	229	2,944	4,838	3,801	3,355	27,020	30,375
Ending Cash and Equivalents	\$2,944	\$4,838	\$3,801	\$5,764	\$27,320	\$30,076	\$51,812
CASH FLOW DATA:							
Gross Cash Flow/Share (NI+D&A+DTax/Shr)			\$1.07		\$1.54	\$2.16	\$2.41
Free Cash Flow/Share (NI+D&A+DTax+CE/Shr)			(\$1.18)		(\$4.03)	\$0.72	\$2.12
EBITDA/Share			\$2.64		\$1.80	\$2.92	\$3.39
EBITDA	6,911	9,939	21,036		13,552	30,596	35,515

Source: Company reports. Alex. Brown estimates

Kitty Hawk, Inc.
Consolidated Balance Sheet
Fiscal Year Ended December 31
(\$ thousands)

	FY August			Estimated Calendar Year		
	1994	1995	1996	1996	1997	1998
ASSETS						
Cash and cash equivalents	\$4,838	\$3,801	\$5,764	\$27,320	\$30,376	\$51,812
Accounts receivable, net	16,122	12,968	14,196	37,828	47,110	52,077
Income tax receivable	0	0	765	0	0	0
Deferred income taxes	160	50	157	108	108	108
Inventories	122	98	1,714	2,790	3,753	4,144
Prepaid expenses	265	798	919	1,144	1,144	1,144
Deposits on aircraft	0	0	0	5,439	5,439	5,439
Total Current Assets	21,507	17,716	23,515	74,629	87,930	114,723
Property, plant and equipment, net	16,404	30,238	56,313	48,399	53,399	46,399
Total Assets	\$37,911	\$47,954	\$79,828	\$123,027	\$141,329	\$161,122
LIABILITIES AND SHAREHOLDERS' EQUITY						
Accounts payable	11,711	9,327	12,952	8,853	11,260	12,431
Accrued expenses	1,928	3,363	3,904	26,042	32,430	35,803
Revolving credit facility for purch. aircraft	0	0	10,000	0	0	0
Income taxes payable	1,884	0	0	2,527	2,527	2,527
Current maturities of LT debt	1,761	3,279	3,620	3,688	3,688	3,688
Total Current Liabilities	17,284	15,969	30,476	41,110	49,905	54,449
Deferred income taxes	693	1,316	2,421	2,545	2,545	2,545
Long-term debt	7,384	13,703	23,291	21,080	18,000	18,000
SHAREHOLDERS' EQUITY						
Common Stock	74	74	80	107	107	107
Additional paid-in capital	0	0	4,636	33,969	33,969	33,969
Retained earnings (deficit)	12,475	16,892	21,000	26,293	38,880	54,129
Treasury stock	0	0	(2,076)	(2,076)	(2,076)	(2,076)
Total Shareholders' Equity	12,550	16,966	23,639	58,292	70,879	86,128
Total Liabilities and Equity	\$37,911	\$47,954	\$79,828	\$123,027	\$141,329	\$161,122
Working Capital Analysis						
Days Receivable	53.9	38.3		102.6	100.0	100.0
Days Payable	45.4	33.2		29.3	30.0	30.0
Days Inventory	0.5	0.4		9.2	10.0	10.0
Accrued Liabilities/COGS	2.1%	3.3%		23.9%	24.0%	24.0%
Profitability Ratios						
Return on Equity		34.4%	22.9%	43.2%	26.6%	19.4%
Return on Assets		11.8%	7.3%	20.5%	11.4%	10.1%
Asset Turnover	2.8	2.5	1.7	1.4	1.2	1.2
Liquidity Ratios						
Working Capital	\$4,223	\$1,747	(\$6,962)	\$33,519	\$38,025	\$60,274
Current Ratio	1.2	1.1	0.8	1.8	1.8	2.1
Capitalization						
Long-term Debt	35.8%	42.8%	47.2%	25.7%	19.7%	16.9%
Deferred income taxes	3.4%	4.1%	4.9%	3.1%	2.8%	2.4%
Shareholders' Equity	60.8%	53.0%	47.9%	71.2%	77.5%	80.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Book Value per Share		\$2.13	\$2.79	\$5.56	\$6.76	\$8.21

Source: Company reports, Alex. Brown estimates

Additional Information Available Upon Request

Alex. Brown & Sons Incorporated maintains a net primary market in the common stock of Kitty Hawk, Inc.

Within the past three years, Alex. Brown & Sons Incorporated has managed or comanaged a public offering of Kitty Hawk, Inc.

This report is based on data from sources we consider to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives it should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed in this report are subject to change. This report is not to be construed as a representation or as an offer or the solicitation of an offer by us to sell or buy any security. From time to time, this Firm and/or its directors, officers, employees or members of their immediate families may have a long or short position in the securities mentioned in this report. Moreover, the securities mentioned in this report may be sold to or purchased from customers or otherwise by this Firm or its directors, officers, employees or members of their immediate families, as principal. This publication has been approved for distribution in the U.K. by Alex. Brown & Sons Limited, which is regulated by the Securities and Futures Authority for the conduct of investment business in the U.K.

Scott & Stringfellow, Inc.

Personal Investment Service Since 1893

MEMBER NYSE/SIPC

EQUITY RESEARCH

Kitty Hawk, Inc. (KTTY-OTC)

Initiating Coverage - Strong Buy

June 2, 1997

Rating: Strong Buy (1)

Alex V. Brand, CFA

(804) 782-8811

Current Price	\$15.00	Market Capitalization	\$156.8 mil
52 Week Range	\$8 - 17.25	Common Shares Outstanding	10.5 mil
Dividend/Yield	Nil	Average Daily Volume	30,000
Book Value/Share (Mar.)	\$5.71	Institutions Own/Insiders Own	12%/69%
Estimated 3 Year EPS Growth Rate	15%	Long-term Debt to Capital	31.3%
12-18 Month Price Target	\$20	Cash Flow/Share 1996A	\$1.31

EPS (Fully Diluted)	1996	1997E	1998E
Q1 - Dec.	\$0.02	\$0.14A	
Q2 - March	0.16	-0.23E	
Q3 - June	0.32	0.23E	
Q4 - Sept.	0.43	0.55E	
Year	\$0.98	\$1.15E	\$1.45E
P/E Ratio	15.3x	13.0x	10.3x
Rev (\$mm)	\$132.7	\$171.7	\$196.8
ROE	NM	19.1%	19.8%

*earnings are fully diluted

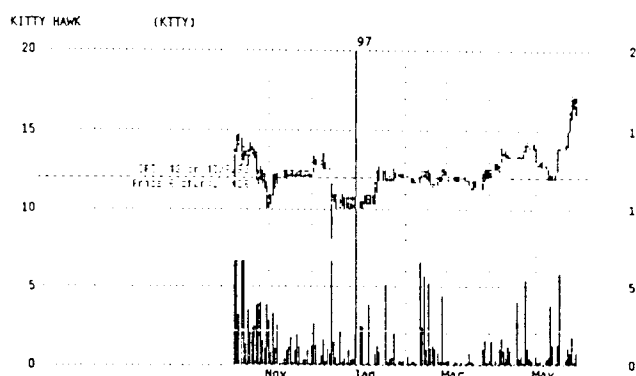


Chart Courtesy of BASELINE

INVESTMENT SUMMARY

- We recently initiated coverage of Kitty Hawk with a Strong Buy (1) rating as well as added it to the Recommended List. Based on a discount to its 15% long-term growth rate, or a multiple of 13.5-14x our 1998 estimate of \$1.45 per share, our 12-18 month price target is \$20 per share.
- Kitty Hawk is one of the leading providers of air freight charter services in the United States, emphasizing highly reliable, time sensitive services. This service allows its customers desire the operational flexibility afforded by the Company's additional airlift capacity. Kitty Hawk's on-demand air charter business supports the trend in U.S. industry towards just-in-time inventory systems.
- We believe projected worldwide growth in time-definite shipments presents excellent opportunities for Kitty Hawk to grow. According to the Boeing Co. World Air Cargo Forecast, worldwide air freight growth is expected to average 6.7% annually over the next 20 years with the time-definite segment growing even faster.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

SIPC

The information and statistics in this report have been obtained from sources we believe reliable but we do not warrant their accuracy or completeness. We do not undertake to advise the reader as to any changes in figures or our views. This is not a solicitation of an order to buy or sell any securities. Scott & Stringfellow, Inc., its affiliates, directors, officers, stockholders, employees, and accounts with respect to which the foregoing have investment discretion, may have long or short positions in and may from time to time purchase or sell securities of the companies referred to in this report.

COMPANY DESCRIPTION

Kitty Hawk is one of the leading providers of air freight charter services, emphasizing highly-reliable, time-sensitive services. The Company's air freight carrier's revenue fleet is comprised of 25 owned and 3 leased aircraft, 17 of which are currently used in scheduled airport-to-airport freight service under contracts primarily with major freight forwarders in North and Central America and the Pacific Rim. These contracts generally require the Company to supply aircraft, crew, maintenance, and insurance ("ACMI") and to meet certain on-time performance standards, while its customers are responsible for substantially all other operating expenses, including fuel.

Kitty Hawk is also a leading provider of same-day air logistics charter services in North America. Through its advanced, proprietary computer software, the Company manages delivery of extremely time-sensitive freight utilizing the on-demand charter services of both third-party air freight carriers and planes from the Company's fleet that are not then committed to ACMI service.

Business Segments

Air Freight. Kitty Hawk operates one of the largest fleets of Boeing 727-200F (freighter) aircraft dedicated to ACMI contract charters (See Table 1). Under ACMI contracts, the air freight carrier operates designated aircraft on scheduled routes typically for certified air freight carriers that desire the operational flexibility afforded by the company's additional airlift capacity. Kitty Hawk's air freight customers include the U.S.

Postal Service, Burlington Air Express, DHL Airways, Emery Worldwide, and Federal Express. The air freight carrier side of the business should account for approximately 65% of the firm's gross profits in 1997.

Kitty Hawk provides the aircraft, crew, maintenance and insurance (ACMI). Kitty Hawk's customers are required to provide all of the other operating expenses. This means that the Company does not have costs associated with fuel, marketing, airport cargo handling, landing fees, ground handling, aircraft pushback and de-icing, and specific cargo and mail insurance.

Air Logistics. Kitty Hawk's expedited, same-day air charter services can be thought of as an "air ambulance" service for its customers. While this revenue stream does not have the predictability of the ACMI revenues, it represents an invaluable service for the firm's customers which cannot easily be obtained elsewhere. This service primarily supports the trend in U.S. industry toward just-in-time inventory systems. Using their proprietary computerized database, Kitty Hawk coordinates door-to-door transportation services by arranging for ground pickup, loading, air transportation, unloading, and ground delivery of freight. As companies continue to move toward lowering inventory carry costs, Kitty Hawk's ability to arrange and complete the typical job in 3 ½ hours plays into this trend. This service is also important when expedited, same day delivery is critical to avoid costly inventory shortages or work stoppages. Major customers of the air logistics include Eagle USA Airfreight, General Motors, IBM, Ryder System, the U.S. Postal Service and TRW. The air logistics side of the business should account for approximately 34% of the firm's gross profits in 1997 (See Table 2 on the following page for segment breakdown).

Table 1 Kitty Hawk's Costs vs. Its Customers	
Kitty Hawk's Costs	Customer's Costs
Aircraft	Fuel & fuel servicing
Crew	Marketing to obtain cargo
Maintenance	Airport cargo handling
Insurance	Landing fees
	Ground handling
	Aircraft pushback & de-icing
	Specific cargo/mail insurance

Source: Company reports

Table 2

Revenue Breakdown				
Revenues	<u>1997E</u>	<u>% of Total</u>	<u>1998E</u>	<u>% of Total</u>
Air freight	\$ 79,532	46%	\$ 100,952	51%
Air logistics	<u>92,202</u>	54%	<u>95,890</u>	49%
Total Revenues	\$ 171,734	100%	\$ 196,842	100%
Gross Profit Breakdown				
Air freight	\$ 22,349	66%	\$ 28,071	70%
Air logistics	<u>11,415</u>	34%	<u>12,064</u>	30%
Total Gross Profit	\$ 33,764	100%	\$ 40,135	100%

Source: Company reports and Scott & Stringfellow estimates

MANAGEMENT

M. Tom Christopher – Mr. Christopher is Chairman, CEO and Founder of Kitty Hawk. He founded the Company in 1978 as Christopher Charters after working as an account manager for Burlington Northern Airfreight from 1976 to 1978. Under Mr. Christopher's leadership and guidance, Kitty Hawk been consistently profitable since its inception.

Tilmon J. Reeves – Mr. Reeves has served as President and Chief Operating Officer of the company since 1993 and has over 30 years of aviation experience. Prior to assuming his current positions, he served as Vice President of Air Freight for about a year. Mr. Reeves was also formerly the Managing Director of Cargo Services for American Airlines.

Richard R. Wadsworth – Mr. Wadsworth has served as Senior Vice President of Finance since 1992 and Chief Financial Officer since 1994. Prior to joining Kitty Hawk, Mr. Wadsworth was a consultant for the firm in preparations of bids for air freight contracts.

STRENGTHS

Solid earnings growth and a growth market. There are several fundamental strengths which make Kitty Hawk an excellent investment. Perhaps most important, we believe the company can deliver 15%-18% earnings growth for the next several years. Aided by a highly competent management team and strong industry growth, Kitty Hawk should continue to improve its already dominant market position. The Company intends to grow by acquiring additional Boeing 727-200 aircraft primarily for its ACMI contract business to meet expected growth in air freight transportation demand in both the North American and Pacific Rim markets. Also, the firm is increasing its marketing efforts to companies which are reducing inventory and shortening product cycle times through direct air shipments from manufacturer to end user. Kitty Hawk will continue to provide high quality service through the ongoing development and enhancement of its computerized database, information software and tracking systems. Finally, the Company will pursue the acquisition of domestic and international strategic suppliers of on-demand air and related ground transportation services.

Aircraft type. Kitty Hawk, which received a 99 (out of 100) in an unsolicited Dun & Bradstreet customer satisfaction survey, believes that the 727-200 enables it to offer its customers a desirable aircraft type for the shipment of freight and to attract and retain customers who desire a single source of Boeing 727-200F aircraft. The popularity of this aircraft stems from its range and payload characteristics, namely flights of 2,500 miles or less which are typical of the intra-American and intra-Asian routes of its integrated freight customers.

Proprietary Technology. Kitty Hawk's proprietary computerized database, information software, and tracking systems enable it to increase aircraft utilization and provide better service to their customers. When a customer needs a highly time sensitive delivery made which may be critical to the ongoing operations of its business, Kitty

Hawk's ability to find a plane, begin immediate shipment, and track the shipment by the second provides customers with a high degree of reliability as well as a sense of security.

In-house maintenance. Because maintenance can be a key earnings issue for a company like Kitty Hawk due to its ownership of used 727s, the Company's ability to perform most of its maintenance in-house gives it a distinct advantage over many competitors. The Company's aircraft require considerable maintenance in order to remain in compliance with FAA regulations. The Company estimates that at current rates of operation of its existing fleet, the next scheduled major overhaul maintenance checks for five Boeing 727-200s will be completed during 1997, and, one will be completed during 1998. The Company does not anticipate any of its aircraft, at current rates of operation, requiring major overhaul maintenance checks during fiscal year 1999. The Company estimates that the service life of each of its revenue aircraft extends beyond the year 2000. Kitty Hawk historically has followed, and currently intends to follow, a policy of retiring Convairs (its smaller, turboprop aircraft) at the time of their next scheduled major overhaul maintenance checks rather than expending the amounts necessary for such checks. There are currently 6 Convairs operating in the scheduled air freight with one used on the air logistics side of the business.

Any equipment being placed on the Company's operating certificate is inspected and repaired prior to being utilized by the Company for either on-demand or ACMI contract charters. The Company's maintenance facilities enable it to perform all required airframe maintenance and minor engine repairs on the aircraft ranging from overnight "turnaround" checks to major airframe overhauls. The Company performs all maintenance for its fleet, including line maintenance, at its own maintenance facilities, except for repairs to avionics and overhauls of engines and airframes. All contract maintenance is performed by subcontracted FAA-approved maintenance facilities under the on-site supervision and/or inspection of Company quality assurance personnel. Management currently anticipates no difficulties in acquiring needed parts.

Of course, because Kitty Hawk is in a high fixed cost business, growth should lead to economies of scale which will further its competitive advantage. As the leading provider of same-day air logistics services in the U.S., the Company has significant pricing advantages in arranging third party air freight charters resulting in lower prices for customers and improved profitability for Kitty Hawk.

RISKS

Revenue Concentration. Probably the first perceived weakness that an investor notices when studying Kitty Hawk is that 35%-40% of the firm's revenues are derived from General Motors. While Kitty Hawk is GM's sole source provider of "air ambulance" services, this business has a very low profit margin of about 3%. In effect, any lost GM revenues due to a strike or some other factor would not have a significant impact on the Company's earnings. This fact can be difficult for investors to swallow, but it was actually borne out shortly after the Company's IPO in October of 1996. A GM strike did impact revenues but higher margin replacement business offset the lost revenues and the Company was able to deliver earnings in-line with estimates which had basically assumed no strike. Therefore, while total operating revenues could be erratic, at times, due to fluctuations in air logistic revenues, we believe that investors should focus on what should prove to be a steady pattern of earnings and profitability.

Aircraft Acquisitions. Of course, in order to pursue their central strategy of growing ACMI contract revenue, Kitty Hawk will need available planes which meet the needs of their customers. We do not believe that 727 availability will be an issue for Kitty Hawk. As domestic airlines seek to rid their fleets of older 727 aircraft, the Company should find equipment readily available for purchase as its business grows. In fact, according to Boeing Co. estimates, available 727s will approach 500 units over the next 15 years. Because the 727 is the world's most popular aircraft and has been abundantly produced, Kitty Hawk should not have difficulty acquiring aircraft for use in future freighter service.

While Kitty Hawk is a relatively new public company, it has been in business since 1978. Its long operating history with Mr. Christopher at the helm provides some comfort when considering Kitty Hawk as an investment. That said, the market for air cargo services is highly competitive. However, Kitty Hawk is a unique company, especially in its

technological advantages which enable it to track freight and shipments up to the second. Over time, this will become a competitive necessity, and we believe Kitty Hawk is well ahead of the competition.

ACMI CUSTOMERS

The following is a list and brief description of Kitty Hawk's key ACMI contract customers:

- **Burlington Air Express** - Burlington currently has 9 727-200s (flying 10 daily routes) and 1 Convair under contract with Kitty Hawk. The 727s operate under contracts which expire between March, 1998 and January of 2000. The Convair is operated under a rolling 30 day contractual arrangement. These contracts are generally based on a minimum guaranteed daily rate.
- **Ting Hong Oceanic Enterprises** - this customer has 1 727-200 operating out of Saipan. General contractual terms call for a minimum monthly rate paid to Kitty Hawk with additional usage charged on a per hour basis. This contract will expire in August of 1997 but will most likely be renewed early.
- **Pacific East Asia Cargo** (an affiliate of TNT Express Worldwide) - this customer has 1 727-200 operating on a monthly minimum contractual basis with additional usage charged on a per hour basis. This contract will expire in April of 1998.
- **DHL Airways** - this customer currently operates 1 DC9-15 and 4 Convairs under a rolling 30 day contractual arrangement. These contracts are generally based on a minimum guaranteed daily rate.
- **Emery Worldwide** - this customer currently operates 1 Convair under a rolling 30 day contractual arrangement. These contracts are generally based on a minimum guaranteed daily rate.

RECENT RESULTS

Kitty Hawk reported 1st quarter 1997 results on April 30 in-line with estimates at \$0.14 per share. This compares with \$0.02 in the 1st quarter of 1996. Results were driven by strong revenue growth of 39% as well as a 580 basis point expansion in operating margins. Margin expansion can be attributed directly to the Company's focus on growing its air freight "ACMI" business which has much higher margins than the logistics business.

Since its IPO in October, 1996, Kitty Hawk has added four 727-200s to the eight already in air freight revenue service. The Company has three more aircraft which will be in service by the end of the year. These aircraft will be used under the recently announced contract with Burlington Air Express. One is already producing revenue while one should begin service around mid-July. The third plane will be used as a spare which will prevent system downtime on scheduled routes thereby preventing lost revenues.

VALUATION

As a result of the excellent prospects for growth, we strongly recommend these shares for purchase at this time. Kitty Hawk shares are trading at 13x our 1997 estimate of \$1.15 and just 10.3x our 1998 estimate of \$1.45. We believe these shares can trade to at least 13.5-14x earnings based on our secular growth rate estimate of 15%. Using an earnings multiple of approximately 14x our 1998 estimate, we believe these shares can trade to at least \$20 over the next 12-18 months (Table 3).

Table 3
Valuation Table

Air Freight Company Comparables

Share prices as of close: 5/30/97

Ticker	Price	52 week:		Mkt. Cap.	YTD Perf.	EPS		P/B	P/E		P/EBITDA		Ent.Value/EBITDA		P/E vs. SP500	
		High	Low			FY96A	FY97E		FY96A	FY97E	FY96A	FY97E	FY96A	FY97E	FY96A	FY97E
ATLS	\$ 28.75	\$ 59.75	\$ 19.88	\$ 645.4	-39.8%	\$ 1.88	\$ 2.10	3.0x	15.3x	13.7x	11.5x	1.5x	1.1x	0.9x	8.9x	6.4x
KTTY	16.75	17.25	8.00	175.1	67.5%	0.98	\$ 1.15	2.9x	17.1x	14.6x	11.5x	9.5x	5.2x	4.2x	10.3x	5.7x
FDX	52.38	57.88	36.25	5,970.8	17.7%	3.32	4.24	2.1x	15.8x	12.4x	NA	4.4x	4.0x	3.6x	5.5x	5.0x
ABF	38.25	38.38	19.50	803.3	63.6%	1.28	3.40	1.9x	29.9x	11.3x	9.6x	3.3x	2.6x	2.4x	4.8x	3.8x
Mean																
Adj. Mean																
High																
Low																

Note:

Enterprise Value = Market Value + LT Debt - Cash and Equivalents

ATLS = Atlas Air

KTTY = Kitty Hawk

FDX = Federal Express

ABF = Airborne Freight

Source: Company reports and Scott & Stringfellow estimates

Table 4
Earnings Model

Kitty Hawk, Inc. and Subsidiaries Calendar Year Earnings Model (in \$000) Earnings Model 1996 - 1997												
	1Q96	2Q96	3Q96	4Q96	1996	1Q97	2Q97E	3Q97E	4Q97E	1997E	1Q97	% Change 97/96
Revenues												
Air freight	\$ 10,059	\$ 15,215	\$ 14,341	\$ 15,889	\$ 55,504	\$ 14,888	\$ 20,426	\$ 20,822	\$ 23,395	\$ 79,532	48.0%	34.2%
Air logistics	10,195	16,815	16,134	34,024	77,168	13,215	17,488	16,779	44,720	92,202	29.6%	4.0%
Total revenues	\$ 20,254	\$ 32,031	\$ 30,475	\$ 49,913	\$ 132,672	\$ 28,103	\$ 37,914	\$ 37,601	\$ 68,115	\$ 171,734	38.8%	18.4%
Costs of revenues												
Air freight	8,256	12,085	9,348	11,172	40,860	10,873	14,707	14,992	16,611	57,182	31.7%	21.7%
Air logistics	9,155	15,113	14,872	28,797	67,936	11,875	15,827	15,185	37,900	80,787	29.7%	4.7%
Total costs of revenues	17,411	27,197	24,219	39,969	108,796	22,748	30,533	30,177	54,511	137,969	30.7%	12.3%
Air freight gross profit	1,803	3,131	4,993	4,717	14,645	4,015	5,719	5,830	6,785	22,349	122.6%	82.7%
Margin	17.9%	20.6%	34.8%	29.7%	26.4%	27.0%	28.0%	28.0%	29.0%	28.1%	28.1%	16.8%
Air logistics gross profit	1,040	1,703	1,262	5,227	9,231	1,340	1,661	1,594	6,820	11,415	28.9%	-2.4%
Margin	10.2%	10.1%	7.8%	15.4%	12.0%	10.1%	9.5%	9.5%	15.3%	12.4%	28.9%	26.3%
Gross Profit	\$ 2,843	\$ 4,833	\$ 6,255	\$ 9,944	\$ 23,876	\$ 5,355	\$ 7,381	\$ 7,424	\$ 13,604	\$ 33,764	88.3%	52.7%
Total Gross Margin	14.0%	15.1%	20.5%	19.9%	18.0%	19.1%	19.5%	19.7%	20.0%	19.7%	88.3%	18.7%
General and administrative expenses	2,271	2,301	2,305	2,066	8,943	2,513	2,526	2,538	2,551	10,128	10.6%	9.8%
Non-qualified empl. profit sharing exp.	(91)	58	477	796	1,240	271	447	450	1,067	2,235	-397.9%	668.5%
Option Grants	-	4,232	(1)	-	4,231	-	-	-	-	-	-	-
Operating income (expense)	\$ 663	\$ (1,758)	\$ 3,475	\$ 7,082	\$ 9,462	\$ 2,571	\$ 4,408	\$ 4,436	\$ 9,987	\$ 21,402	287.9%	-350.8%
Operating Margin	3.3%	-5.5%	11.4%	14.2%	7.1%	9.1%	11.6%	11.8%	14.7%	12.5%	179.6%	-311.9%
Interest income (expense)	(520)	(504)	(507)	(532)	(2,062)	(481)	(483)	(486)	(488)	(1,938)	-7.5%	-4.0%
Other income (expense)	102	36	(464)	617	291	267	100	100	100	567	161.4%	181.4%
Total other	(418)	(468)	(971)	85	(1,771)	(214)	(383)	(386)	(388)	(1,371)	-48.8%	-18.1%
Income before taxes	\$ 245	\$ (2,226)	\$ 2,504	\$ 7,167	\$ 7,691	\$ 2,357	\$ 4,025	\$ 4,050	\$ 9,599	\$ 20,031	861.6%	-280.8%
Income taxes	96	(927)	1,096	2,769	3,033	943	1,610	1,620	3,840	8,012	885.8%	-273.7%
Net income	\$ 149	\$ (1,299)	\$ 1,408	\$ 4,398	\$ 4,657	\$ 1,414	\$ 2,415	\$ 2,430	\$ 5,759	\$ 12,018	846.1%	-285.9%
Net Margin	0.7%	-4.1%	4.6%	8.8%	3.5%	5.0%	6.4%	6.5%	8.5%	7.0%	581.8%	-257.1%
Net income per share	0.02	-0.16	0.18	0.43	0.55	0.14	0.23	0.23	0.55	1.15	621.2%	-241.7%
EPS ex-nonrecurring items	0.02	0.16	0.32	0.43	0.98							
Weighted average shares outstanding	7,968	7,968	7,750	10,215	8,477	10,452	10,452	10,452	10,452	10,452	31.2%	31.2%
												2.3%

Source: Company reports and Scott & Siringello estimates

Table 5
Earnings Model

Kitty Hawk, Inc. and Subsidiaries Calendar year Earnings Model (in \$000) Earnings Model 1997 - 1998															
	1Q97	2Q97E	3Q97E	4Q97E	1997E	1Q98E	2Q98E	3Q98E	4Q98E	1998E	1Q98	2Q98	3Q98	4Q98	1998
	% Change 98/97														
Revenues															
Air freight	\$ 14,888	\$ 20,426	\$ 20,822	\$ 23,395	\$ 79,532	\$ 23,068	\$ 24,997	\$ 24,603	\$ 28,284	\$ 100,952	54.9%	22.4%	18.2%	20.9%	26.9%
Air logistics	13,215	17,488	16,779	44,720	92,202	13,744	18,187	17,450	46,509	95,890	4.0%	4.0%	4.0%	4.0%	4.0%
Total revenues	\$ 28,103	\$ 37,914	\$ 37,601	\$ 68,115	\$ 171,734	\$ 36,811	\$ 43,185	\$ 42,054	\$ 74,793	\$ 196,842	31.0%	13.9%	11.8%	9.8%	14.6%
Costs of revenues															
Air freight	10,873	14,707	14,992	16,611	57,182	16,839	18,123	17,837	20,082	72,881	54.9%	23.2%	19.0%	20.9%	27.5%
Air logistics	11,875	15,827	15,185	37,900	80,787	12,507	16,460	15,792	39,067	83,826	5.3%	4.0%	4.0%	3.1%	3.8%
Total costs of revenues	22,748	30,533	30,177	54,511	137,969	29,346	34,583	33,630	59,149	156,708	29.0%	13.3%	11.4%	8.5%	13.6%
Air freight gross profit	4,015	5,719	5,830	6,785	22,349	6,228	6,874	6,766	8,202	28,071	55.1%	20.2%	16.1%	20.9%	25.6%
Margin	27.0%	28.0%	28.0%	29.0%	28.1%	27.0%	27.5%	27.5%	29.0%	27.8%	-7.7%	4.0%	4.0%	9.1%	5.7%
Air logistics gross profit	1,340	1,661	1,594	6,820	11,415	1,237	1,728	1,658	7,441	12,064	-7.7%	4.0%	4.0%	9.1%	5.7%
Margin	10.1%	9.5%	9.5%	15.3%	12.4%	9.0%	9.5%	9.5%	16.0%	12.6%	-7.7%	4.0%	4.0%	9.1%	5.7%
Gross Profit	\$ 5,355	\$ 7,381	\$ 7,424	\$ 13,604	\$ 33,764	\$ 7,465	\$ 8,602	\$ 8,424	\$ 15,644	\$ 40,135	39.4%	16.5%	13.5%	15.0%	18.9%
Total Gross Margin	19.1%	19.5%	19.7%	20.0%	19.7%	20.3%	19.9%	20.0%	20.9%	20.4%					
General and administrative expenses	2,513	2,526	2,538	2,551	10,128	2,576	2,602	2,628	2,654	10,461	2.5%	3.0%	3.5%	4.1%	3.3%
Non-qualified empl. profit sharing exp.	271	447	450	1,067	2,235	450	561	540	1,259	2,810	66.0%	25.4%	20.0%	18.1%	25.7%
Option Grants	-	-	-	-	-	-	-	-	-	-					
Operating income (expense)	\$ 2,571	\$ 4,408	\$ 4,436	\$ 9,987	\$ 21,402	\$ 4,439	\$ 5,439	\$ 5,256	\$ 11,730	\$ 26,864	72.7%	23.4%	18.5%	17.5%	25.5%
Operating Margin	9.1%	11.6%	11.8%	14.7%	12.5%	12.1%	12.6%	12.5%	15.7%	13.6%	31.8%	8.3%	5.9%	7.0%	9.5%
Interest income (expense)	(481)	(483)	(486)	(488)	(1,938)	(491)	(493)	(496)	(498)	(1,978)	2.0%	2.0%	2.0%	2.0%	2.0%
Other income (expense)	267	100	100	100	567	100	100	100	100	400	-62.5%	0.0%	0.0%	0.0%	-29.5%
Total other	(214)	(383)	(386)	(388)	(1,371)	(391)	(393)	(396)	(398)	(1,578)	82.6%	2.5%	2.5%	2.5%	15.0%
Income before taxes	\$ 2,357	\$ 4,025	\$ 4,050	\$ 9,599	\$ 20,031	\$ 4,048	\$ 5,046	\$ 4,860	\$ 11,332	\$ 25,286	71.8%	25.4%	20.0%	18.1%	26.2%
Income taxes	943	1,610	1,620	3,840	8,012	1,619	2,018	1,944	4,533	10,115	71.8%	25.4%	20.0%	18.1%	26.2%
Net income	\$ 1,414	\$ 2,415	\$ 2,430	\$ 5,759	\$ 12,018	\$ 2,429	\$ 3,028	\$ 2,916	\$ 6,799	\$ 15,172	71.8%	25.4%	20.0%	18.1%	26.2%
Net Margin	5.0%	6.4%	6.5%	8.5%	7.0%	6.6%	7.0%	6.9%	9.1%	7.7%	31.1%	10.1%	7.3%	7.5%	10.1%
Net income per share	0.14	0.23	0.23	0.55	1.15	0.23	0.29	0.28	0.65	1.45	71.8%	25.4%	20.0%	18.1%	26.2%
EPS ex-nonrecurring items															
Weighted average shares outstanding	10,452	10,452	10,452	10,452	10,452	10,452	10,452	10,452	10,452	10,452	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company reports and Scott & Stringfellow estimates

Table 6

Kitty Hawk, Inc.			
Cash Flow Model			
1996-1998E (in thousands)			
	<u>1996E</u>	<u>1997E</u>	<u>1998E</u>
Net income	\$ 4,656	\$ 12,018	\$ 15,172
Non-cash charges	4,820	-	-
Depr. & amort.	8,393	12,000	15,000
Deferred taxes	<u>1,171</u>	<u>-</u>	<u>-</u>
Operating cash flow	\$ 19,040	\$ 24,018	\$ 30,172
less:			
Capital expenditures	\$ (28,658)	\$ (35,000)	\$ (25,000)
Chg. in working cap.	<u>2,816</u>	<u>(5,000)</u>	<u>(2,000)</u>
Free cash flow	\$ (6,802)	\$ (15,982)	\$ 3,172
External sources/uses of cash			
LT debt	\$ 3,073	\$ (4,000)	\$ (4,000)
Issuance of equity	29,343	-	-
Other	<u>(1,650)</u>	<u>-</u>	<u>-</u>
Total financing	\$ 30,766	\$ (4,000)	\$ (4,000)
Net increase (decrease) in cash	\$ 23,965	\$ (19,982)	\$ (828)
Beginning cash & equivalents	<u>3,355</u>	<u>27,320</u>	<u>7,338</u>
Ending cash & equivalents	\$ 27,320	\$ 7,338	\$ 6,510
Operating cash flow per share	\$ 2.25	\$ 2.30	\$ 2.89
Free cash flow per share	\$ (0.80)	\$ (1.53)	\$ 0.30

Source: Company reports and Scott & Stringfellow estimates

Table 7

Kitty Hawk, Inc.
Condensed Consolidated Balance Sheet

	Mar. 31 1997	Dec. 31 1996
ASSETS (\$ in thousands)		
<i>Current assets</i>		
Cash and cash equivalents	\$ 11,455	\$ 27,320
Trade accounts receivable	19,591	37,828
Deferred income tax	108	108
Inventory and aircraft supplies	3,552	2,790
Prepaid expenses and other assets	1,359	1,144
Deposits on Aircraft	4,230	5,439
<i>Total current assets</i>	40,295	74,629
<i>Property and equipment</i>		
Aircraft	65,415	53,141
Aircraft work-in-progress	8,772	6,733
Machinery and equipment	2,953	2,681
Leasehold improvements	2,394	779
Building	1,770	
Furniture and fixtures	166	166
Transportation equipment	294	289
	81,765	63,789
Less: Accumulated depreciation and amortization	(17,629)	(15,390)
<i>Net property and equipment</i>	64,136	48,399
<i>Total assets</i>	<u>\$ 104,431</u>	<u>\$ 123,028</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
<i>Current liabilities</i>		
Accounts payable	\$ 5,871	\$ 8,853
Accrued expenses	6,064	23,669
Income taxes payable	649	2,527
Accrued maintenance reserves	2,404	2,373
Revolving Credit Facility for aircraft acquisition expected to be refinanced	-	-
Current maturities of long-term debt	3,825	3,688
<i>Total current liabilities</i>	18,814	41,110
Long-term debt	23,383	21,080
Deferred income taxes	2,545	2,545
<i>Stockholders' equity</i>		
Common stock	107	107
Additional paid in capital	33,952	33,969
Retained earnings	27,707	26,293
Less treasury stock, 217,710 shares	(2,076)	(2,076)
<i>Total Stockholders' equity</i>	59,690	58,293
<i>Total liabilities and stockholders' equity</i>	<u>104,431</u>	<u>123,028</u>
 BV/Share \$ 5.71 \$ 5.58		
Debt/Capital 31.3% 29.8%		

SMITH BARNEY

KITTY HAWK, INC.*# (KTTY-OTC)

Air Freight

May 16, 199
SF05E22

No Chart Available

- Kitty Hawk reported excellent first quarter results, with revenues growing 38.8%, and expenses up 30.7%, which lead to an improved gross profit margin
- We believe Kitty Hawk has excellent long-term prospects in both the air freight business and the air logistics business. We rate the shares **2S** because of the uncertainty regarding the upcoming Notice of Proposed Rulemaking
- Analyst's Opinion:
2 Rating
S Risk

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Price (5/13/97)	\$12	1998 P/E Rel. to S&P 500	0.42x
52-Week Price Range	\$15-\$8.00	Dividend/Yield	\$0/NA
EPS 1998E	\$1.45	Book Value Per Share	\$5.18
EPS 1997E	\$1.19	Cash Flow Per Share 1995A	\$1.03
EPS 1996A	\$0.98	ROE 1996A	22%
EPS 1998-2002E Annual Growth Rate	15.0%	Debt as % of Total Cap.	31.78%
Price/1998E	8.2x	S&P 500 (5/13/97)	833
Price/1997E	10.0x	Shares (million)	10.7

INVESTMENT OPINION AND SUMMARY

- Kitty Hawk Inc. common shares are rated **2S (Outperform, Speculative)**. We believe the long-term prospects for Kitty Hawk are excellent, as the company has a well defined strategic plan in a specific niche of the cargo business. Kitty Hawk's revenues come from two segments of the air cargo business. The first is the air freight market, where Kitty Hawk uses 15 Boeing 727 cargo aircraft to provide wet lease services to other companies. This a contract business, and revenues are somewhat predictable. The second is the air logistics business, where Kitty Hawk provides time-sensitive charters for its customers.

Kitty Hawk -2

- Kitty Hawk recently reported first quarter EPS of \$0.14 vs. \$0.02 last year. This compared to our estimate of \$0.13 and the consensus estimate of \$0.14. Margins in the business improved on a year-over-year basis, as Kitty Hawk flew more flight hours and more flight charters. Revenue per trip and revenue per hour were up in the quarter. Net income was actually up 843%, but owing to a 31% increase in the number of shares outstanding (as a result of the company's initial public offering in October 1996), EPS were up 600%.
- The only short-term concern we have with respect to these shares is the upcoming Notice of Proposed Rulemaking (NPRM) from the Federal Aviation Administration (FAA). The FAA will issue its NPRM regarding the converted Boeing 727 aircraft. Operators of these planes will have 120 days to comment on the NPRM, and then will have one year to comply with the final order. Those not in compliance at the end of that time, will have to change the way they fly their B727s until such time as they are in compliance with the directive.

FIRST QUARTER RESULTS STRONG

Kitty Hawk Inc. reported first quarter results of \$1.4 million vs. \$150,000 (Table 1). This equated to EPS of \$0.14 vs. \$0.02. Revenues were up 38.8%, to \$28.1 million from \$20.3 million owing to an increase in flight hours and number of charters flown. Air freight revenues (ACMI Business) increased 48% to \$14.9 million from \$10.1 million, as the number of B727s operated in the quarter increased from nine to 12. Air logistics revenues were up 29.6% to \$13.2 million from \$10.2 million.

Expenses were up 30.7%, to \$22.7 million from \$17.4 million, leading to an increase in the gross profit margin of five percentage points, to 19.1% from 14.0% last year. The increase in the profit margin came in the air freight carrier business, which showed a 27% gross margin, vs. 18% last year, and vs. the logistics business, where margin remained flat at 10%.

Kitty Hawk operated 2,881 charters in the first quarter of this year, up 23.5% from the 2,333 charters operated in the March 1996 quarter. Revenue per trip was up 5%, to \$4,587 from \$4,370. Kitty Hawk operated 5,830 hours in the ACMI (this is where Kitty Hawk is providing the aircraft, the crew, maintenance and insurance on the aircraft—a term used interchangeably with wet lease) business, up 37.5% from the 4,240 reported last year. Revenue per flight hour increased 9%, to \$2,554 from \$2,344.

Table 1
Kitty Hawk's Income Statement
First Quarter 1997 vs. 1996

	1Q97	% change	1Q96
Revenues			
Air freight	\$ 14,888	48.0%	\$ 10,059
Air logistics	<u>13,215</u>	29.6%	<u>10,195</u>
Total revenues	\$ 28,103	38.8%	\$ 20,254
Costs of revenues			
Air freight	10,873	31.7%	8,256
Air logistics	<u>11,875</u>	29.7%	<u>9,155</u>
Total costs of revenues	22,748	30.7%	17,411
Air freight gross profit	4,015	122.6%	1,803
Air logistics gross profit	<u>1,340</u>	28.9%	<u>1,040</u>
Gross Profit	\$ 5,355	88.3%	\$ 2,843
General and administrative expenses	2,513	10.6%	2,271
Non-qualified empl. profit sharing exp.	271	-397.9%	(91)
Option Grants	-		-
Operating income (expense)	\$ 2,571	287.9%	\$ 663
Interest income (expense)	(481)	-7.5%	(520)
Other income (expense)	<u>267</u>	161.4%	<u>102</u>
Total other	(214)	-48.8%	(418)
Income before taxes	\$ 2,357	861.6%	\$ 245
Income taxes	943	885.8%	96
Net income	\$ 1,414	846.1%	\$ 149
Net income per share	0.14	621.2%	0.02
Weighted average shares outstanding	10,452	31.2%	7,968

Source: Company reports.

KITTY HAWK HAS A STRONG BALANCE SHEET

Interest expense declined as long-term debt declined. The company used some of the proceeds from the recent initial public offering to pay down debt. Long-term debt was \$23.4 million at the end of the March 1997 quarter (Table 2).

Kitty Hawk -4
Table 2
Kitty Hawk, Inc.
Consolidated First Quarter
Balance Sheet

	Mar. 31 1997	Mar. 31 1996	Percent Change
ASSETS (\$ in thousands)			
<i>Current assets</i>			
Cash and short-term equivalents	\$ 11,455	\$ 27,320	-58.1%
Accounts receivable, net	19,592	37,828	(48.2%)
Other current assets	9,249	9,480	-2.4%
<i>Total current assets</i>	<u>40,296</u>	<u>74,628</u>	-46.0%
<i>Net property and equipment</i>	64,136	48,399	32.5%
<i>Total assets</i>	<u>\$ 104,432</u>	<u>\$ 123,027</u>	-15.1%
LIABILITIES AND STOCKHOLDER'S EQUITY			
<i>Current liabilities</i>	18,814	41,110	-54.2%
Long-term debt	23,383	21,080	10.9%
Deferred income tax expense	2,545	2,545	0.0%
<i>Stockholder's equity</i>	59,690	58,292	2.4%
<i>Total liabilities and stockholders' equity</i>	<u>104,432</u>	<u>123,027</u>	-15.1%

Source: Company reports.

The changes in working capital in the first quarter include the following:

- \$16 million used for capital spending. This was a stated use of proceeds from the IPO. Kitty Hawk has two aircraft in modification now, and both are set to come out and go into revenue service later in the current quarter. Property and equipment increased by a like amount.
- Accounts receivable declined as Kitty Hawk collected its postal service revenue. This was a receivable of \$25 million.
- Working capital ended the quarter at \$21.5 million vs. \$33.5 million at the end of the December fiscal year.

THE NOTICE OF PROPOSED RULEMAKING: ☹

Many all-cargo aircraft start their lives serving the passenger market. When their useful passenger life has past, after somewhere between 20-25 years, these planes still have many hours left in them, but not for carrying passengers. At this point, a cargo operator such as Kitty Hawk buys the plane, and then converts it into a cargo plane. The equipment can then continue to be operated for another 20 years or so.

The FAA has recently become concerned about the structure of the plane from a safety standpoint. The FAA is worried that the load condition in certain windy environments will cause a major structural failure of the aircraft.

Kitty Hawk -5

However, the conditions required to cause the aircraft to fail have not occurred in more than 10 years of operating this particular plane in a the cargo configuration.

The FAA has concluded that operators of these planes should modify the aircraft to strengthen the cargo floors and doors. The NPRM will talk about limiting the weight on the aircraft until the modifications are completed. A B727 pallet can presently hold 10,000 pounds of cargo, but the FAA is talking about limiting each pallet position to somewhere between 3,000 and 6,000 pounds. The exact amount at this time is uncertain.

The NPRM was supposed to be issued in late February (and here it is early May), and so far, no notice has been issued. There are approximately 200 converted B727s worldwide that will be affected by this notice—Kitty Hawk operates 15 of them, and three others in various stages of modification. Thus, we expect that Kitty Hawk will be flying its aircraft more often. The company is contracted to provide a certain number of flight hours, and will find that in order to meet its contracts, it will have to, at the very least, double turn its aircraft. We expect its customers, who pay by the hour, to continue paying Kitty Hawk for its services.

There will be an incremental cost in the form of the additional crew time that will be required to meet its obligations, and maintenance costs will rise incrementally as the aircraft will be flying more hours on a regular basis. We expect that Kitty Hawk will remain quite profitable as it continues to fly its aircraft through this issue. There will, in addition, be a cost to bring the aircraft into compliance. This cost is estimated at somewhere between several thousand dollars and up to one-half of a million dollars. We think the true number is probably somewhere at the lower end of this incredibly wide range.

Hopefully, this issue will resolve itself by the end of the current quarter. When we say resolve, we mean, hopefully we will know what the FAA intends operators to do; we realize that it could take up to one year or more to fully come into compliance, and for this issue to settle down. In December 1995, the FAA issued an Airworthiness Directive with respect to B747-100 aircraft, which Kitty Hawk does not fly, and the aircraft involved in that AD are still grounded. So, we understand that any resolution could take quite a long time.

OUTLOOK FOR KITTY HAWK'S SECOND QUARTER

We are estimating EPS for the second quarter of \$0.26 vs. \$0.16 (Table 4). Kitty Hawk should finish the second quarter with 13 B727s in service, and then add three additional aircraft through the end of the third quarter. Kitty Hawk also operates DC9s and Convairs (Table 3), and will continue to operate these planes. These planes could wind up being the workhorse of the Kitty Hawk fleet if the B727s have to do limited flying.

Management is out looking for additional aircraft, and so far, prices of B727s are holding up better than we would have expected given the fact that the planes could be partially grounded.

Table 3
Kitty Hawk, Inc.
Current Aircraft Fleet

15	- B 727 -200	→	→	→	→	→	→	→	→	→	→	→	→	→	→
5	- DC 9 -15	→	→	→	→	→									
8	- Convair -600/640	→	→	→	→	→	→	→	→	→	→				

Kitty Hawk -6

Table 4
Kitty Hawk, Inc.
Earnings Model
1995-96

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Kitty Hawk, Inc. and Subsidiaries
Calendar Year Earnings Model (in \$000)
Earnings Model 1995 - 1996

	1Q95	2Q95	3Q95	4Q95	1995	1Q96	2Q96	3Q96	4Q96	1996	1Q	2Q	3Q	4Q	96/95
Revenues															
Air freight	\$ 8,203	\$ 9,039	\$ 10,201	\$ 13,494	\$ 40,938	\$ 10,059	\$ 15,215	\$ 14,341	\$ 15,889	\$ 55,504	22.6%	68.3%	40.6%	17.7%	35.6%
Air logistics	9,890	11,373	18,607	41,071	80,942	10,195	16,815	16,134	34,024	77,168	3.1%	47.8%	(13.3%)	(17.2%)	(4.7%)
Total revenues	\$ 18,094	\$ 20,412	\$ 28,808	\$ 54,565	\$ 121,879	\$ 20,254	\$ 32,031	\$ 30,475	\$ 49,913	\$ 132,672	11.9%	56.9%	5.8%	(8.5%)	8.9%
Costs of revenues															
Air freight	6,288	6,223	7,820	8,541	28,872	8,256	12,085	9,348	11,172	40,860	31.3%	94.2%	19.5%	30.8%	41.5%
Air logistics	9,333	10,395	16,463	36,118	72,308	9,155	15,113	14,872	28,797	67,936	(1.9%)	45.4%	(9.7%)	(20.3%)	(6.0%)
Total costs of revenues	15,621	16,618	24,282	44,659	101,180	17,411	27,197	24,219	39,969	108,796	11.5%	63.7%	(0.3%)	(10.5%)	7.5%
Air freight gross profit	1,916	2,816	2,382	4,953	12,066	1,803	3,131	4,993	4,717	14,645	(5.9%)	11.2%	109.7%	(4.8%)	21.4%
Air logistics gross profit	558	978	2,144	4,953	8,634	1,040	1,703	1,262	5,227	9,231	86.5%	74.0%	(41.1%)	5.5%	6.9%
Gross Profit	\$ 2,473	\$ 3,794	\$ 4,526	\$ 9,907	\$ 20,699	\$ 2,843	\$ 4,833	\$ 6,255	\$ 9,944	\$ 23,876	15.0%	27.4%	38.2%	0.4%	15.3%
General and administrative expenses	1,865	2,054	2,453	1,941	8,313	2,271	2,301	2,303	2,066	8,943	21.8%	12.0%	(6.0%)	6.4%	7.6%
from qualified empl. profit sharing exp	28	-	370	954	1,351	(91)	58	477	796	1,240					
Option Grants	-	-	-	-	-	-	4,232	(1)	-	4,231					
Operating income (expense)	\$ 581	\$ 1,740	\$ 1,704	\$ 7,012	\$ 11,036	\$ 663	\$ (1,758)	\$ 3,475	\$ 7,082	\$ 9,462	14.2%	(201.0%)	104.0%	1.0%	(14.3%)
Interest income (expense)	(249)	(421)	(369)	(299)	(1,338)	(520)	(504)	(507)	(532)	(2,062)	109.1%	19.5%	37.3%	77.8%	54.1%
Other income (expense)	31	24	(684)	24	(605)	102	36	(464)	617	291	227.2%	46.3%	(32.2%)	(7.8%)	(8.8%)
Total other	(217)	(397)	(1,054)	(275)	(1,943)	(418)	(468)	(971)	85	(1,771)	92.2%	17.9%	(7.8%)		
Income before taxes	\$ 363	\$ 1,343	\$ 650	\$ 6,737	\$ 9,093	\$ 245	\$ (2,226)	\$ 2,504	\$ 7,167	\$ 7,691	(32.5%)		285.2%	6.4%	(15.4%)
Income taxes	138	512	709	2,663	4,021	96	(927)	1,096	2,769	3,033	(30.8%)		54.6%	4.0%	(24.6%)
Net income	\$ 225	\$ 831	\$ (59)	\$ 4,074	\$ 5,072	\$ 149	\$ (1,299)	\$ 1,408	\$ 4,398	\$ 4,657	(33.6%)			8.0%	(8.2%)
Net income per share	0.03	0.10	-0.01	0.51	0.64	0.02	-0.16	0.18	0.43	0.55					
EPS ex-nonrecurring items	0.03	0.10	-0.01	0.51	0.64	0.02	0.16	0.31	0.43	0.98	(29.2%)	53.4%		(15.7%)	53.1%
Weighted average shares outstanding	7,968	7,968	7,968	7,968	7,968	7,968	7,968	7,968	10,215	8,477					

Source: Company reports.

Kitty Hawk -7

Table 5
Kitty Hawk, Inc.
Earnings Model
1996--97E

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Kitty Hawk, Inc. and Subsidiaries
Calendar year Earnings Model (in \$000)
Earnings Model 1996 - 1997E

	1Q96	2Q96	3Q96	4Q96	1996	1Q97E	2Q97E	3Q97E	4Q97E	1997E	1Q	2Q	3Q	4Q	97/96
Revenues															
Air freight	\$ 10,059	\$ 15,215	\$ 14,341	\$ 15,889	\$ 55,504	\$ 14,248	\$ 21,419	\$ 20,523	\$ 23,319	\$ 79,509	41.6%	40.8%	43.1%	46.8%	43.2%
Air logistics	10,125	16,815	16,134	34,024	77,168	10,603	17,488	17,908	44,720	90,719	4.0%	4.0%	11.0%	31.4%	17.6%
Total revenues	\$ 20,254	\$ 32,031	\$ 30,475	\$ 49,913	\$ 132,672	\$ 24,851	\$ 38,907	\$ 38,432	\$ 68,039	\$ 170,228	22.7%	21.5%	26.1%	36.3%	28.3%
Costs of revenues															
Air freight	8,256	12,085	9,348	11,172	40,860	10,188	14,886	14,469	16,090	55,632	23.4%	23.2%	54.8%	44.0%	36.2%
Air logistics	9,155	15,113	14,872	28,797	67,936	9,543	15,739	16,118	37,788	79,188	4.2%	4.1%	8.4%	31.2%	16.6%
Total costs of revenues	17,411	27,197	24,219	39,969	108,796	19,730	30,625	30,586	53,878	134,820	13.3%	12.6%	26.3%	34.8%	23.9%
Gross Profit															
Air freight gross profit	1,803	3,131	4,993	4,717	14,645	4,061	6,533	6,054	7,229	23,877	125.2%	108.7%	21.3%	53.2%	63.0%
Air logistics gross profit	1,040	1,703	1,262	5,227	9,231	1,060	1,749	1,791	6,932	11,532	2.0%	2.7%	41.9%	32.6%	24.9%
Gross Profit	\$ 2,843	\$ 4,833	\$ 6,255	\$ 9,944	\$ 23,876	\$ 5,121	\$ 8,282	\$ 7,845	\$ 14,160	\$ 35,408	80.1%	71.3%	25.4%	42.4%	48.3%
General and administrative expenses															
General and administrative expenses	2,271	2,301	2,305	2,066	8,943	2,815	2,708	2,705	2,721	10,948	23.9%	17.7%	17.3%	31.7%	22.4%
Non-qualified empl. profit sharing exp.	(91)	58	477	796	1,240	186	512	423	1,099	2,220					
Option Grants	-	4,232	(1)	-	4,231	-	-	-	-	-					
Operating income (expense)	\$ 663	\$ (1,758)	\$ 3,475	\$ 7,082	\$ 9,462	\$ 2,120	\$ 5,061	\$ 4,717	\$ 10,341	\$ 22,240	220.0%		35.8%	46.0%	135.0%
Interest income (expense)	(520)	(504)	(507)	(532)	(2,062)	(500)	(500)	(500)	(500)	(2,000)	(3.8%)	(0.7%)	(1.3%)	(6.0%)	(3.0%)
Other income (expense)	102	36	(464)	617	291	50	50	50	50	200	(51.1%)				
Total other	(418)	(468)	(971)	85	(1,771)	(450)	(450)	(450)	(450)	(1,800)	7.8%				
Income before taxes	\$ 245	\$ (2,226)	\$ 2,504	\$ 7,167	\$ 7,691	\$ 1,670	\$ 4,611	\$ 4,267	\$ 9,891	\$ 20,440	581.5%		70.4%	38.0%	165.8%
Income taxes	96	(927)	1,096	2,769	3,033	668	1,844	1,707	3,956	8,176	598.6%		55.8%	42.9%	169.5%
Net income	\$ 149	\$ (1,299)	\$ 1,408	\$ 4,398	\$ 4,657	\$ 1,002	\$ 2,767	\$ 2,560	\$ 5,934	\$ 12,264	570.5%		81.8%	34.9%	163.3%
Net income per share	0.02	-0.16	0.18	0.43	0.55	0.09	0.26	0.24	0.56	1.15					
EPS ex-nonrecurring items	0.02	0.16	0.31	0.43	0.98	0.09	0.26	0.24	0.56	1.15	369.7%	62.1%	(22.6%)	29.4%	17.3%
Weighted average shares outstanding	7,968	7,968	7,968	10,215	8,477	10,668	10,668	10,668	10,668	10,668					

Source: Company reports.

Additional information is available upon request.

Previous report/bulletin: February, 20 1997

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Summary of Results

Value as a Function of Payload

Reliant's fleet obviously is much smaller in terms of payload capacity per plane than either Kitty Hawk's or Kalitta's. Therefore, valuation of Reliant to a large extent is a function of how profits and aircraft value vary with the size of planes.

The table below shows that value of planes per lb of capacity is higher for the smaller sized Falcon Aircraft. This implies that size alone cannot be used to gauge the relative value of planes.

	Average Payload	Current Value	Value per lb
	(lbs/Plane)	(\$000's/Plane)	(\$/Plane)
747's	229,000	29,000	126.64
727's	53,500	5,800	108.41
Falcons	6,000	1,500	250.00

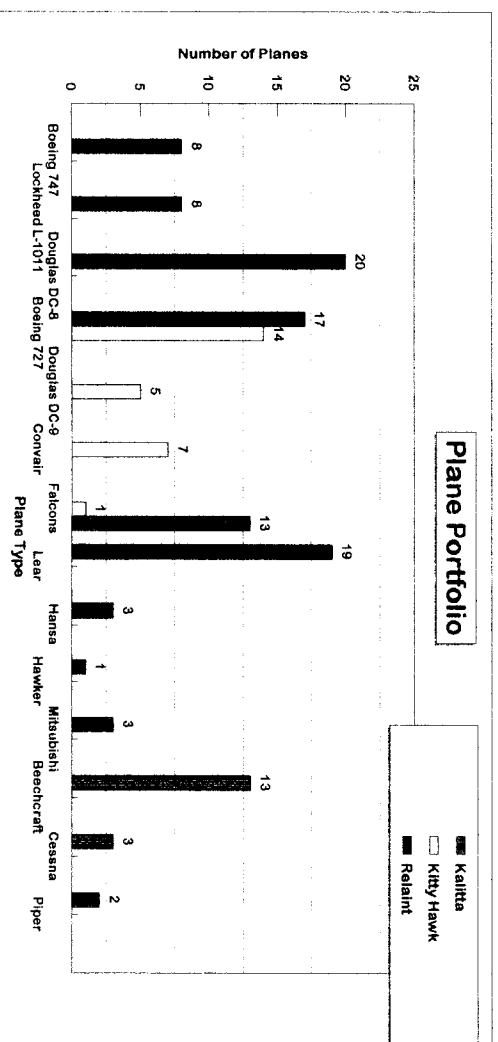
The difference in plane value results in a different operating margin per plane. The following table shows how operating margins vary with the payload capacity of planes:

	Average Payload	Operating Margin	Value per lb
	(lbs/Plane)	(\$000's/Plane)	(\$/Plane)
Kalitta	57,895	637	16.51
Kitty Hawk	35,741	956	26.75
Reliant	6,000	405	67.50

The much higher margin per plane implies that Reliant cannot be valued on a payload basis where the value per plane is lowered in direct proportion to the payload size per plane.

Background

As background, we initially compare the fleet portfolio of Kitty Hawk, Reliant and Kalitta. The graph below demonstrates that Kalitta has a larger and more diverse fleet than Kitty Hawk or Reliant. The issue raised by this information is whether the new company can manage the diverse fleet. The chart shows that a combined Kitty Hawk/Kalitta will be able to serve the type of flights provided by Falcons with Kalitta's fleet (the chart is arranged by size of aircraft).



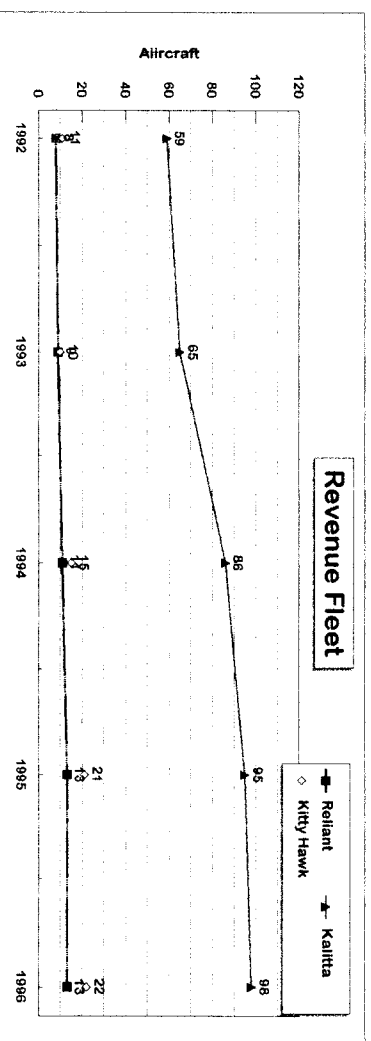
The smaller sized components of Kalitta's fleet could have significant negative impacts on Reliant. For example, in the S-1 filing Kitty Hawk stated that:

The Merger will afford the Company opportunities to direct more on-demand charters to the Kalitta Companies' small aircraft, rather than to third parties.

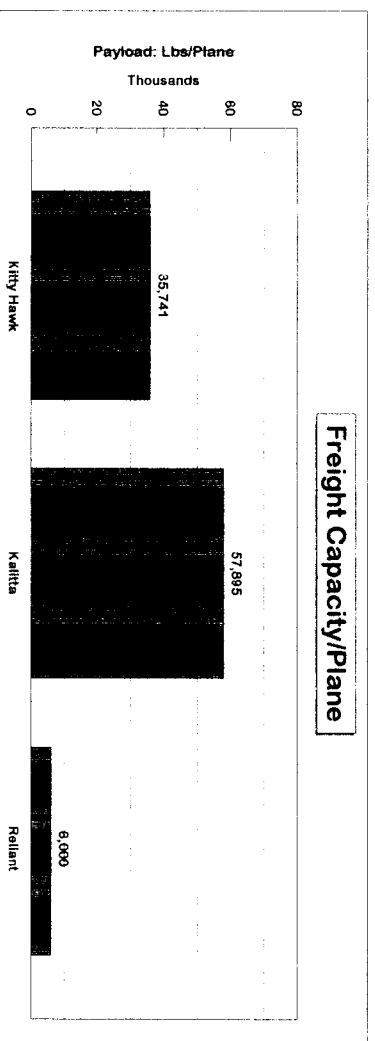
Background

Size of Aircraft Fleet

Kalitta and Kitty Hawk have grown significantly in terms of their aircraft fleet. The graph below compares the size of the total fleet for the three companies.

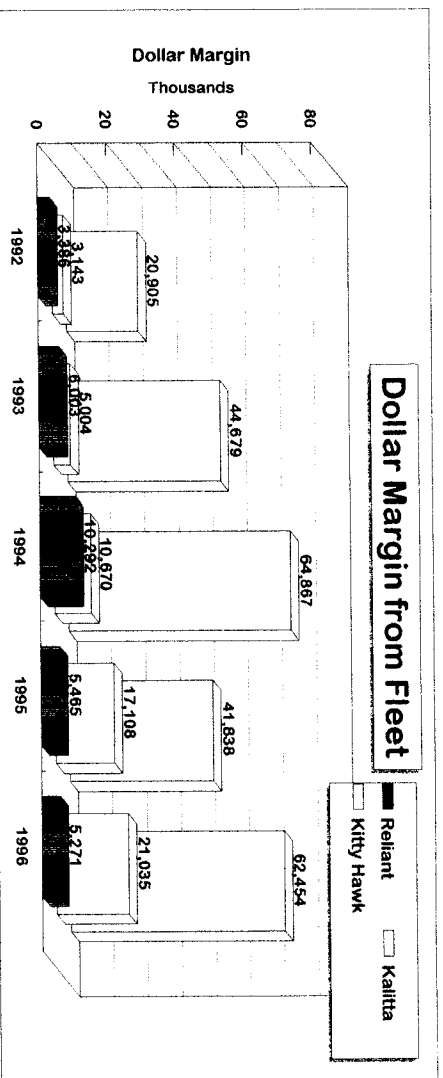


The graph below shows the total number of planes and the average freight capacity per plane for the three companies. Given the larger plane size of Kalitta, the margin per plane should be greater.

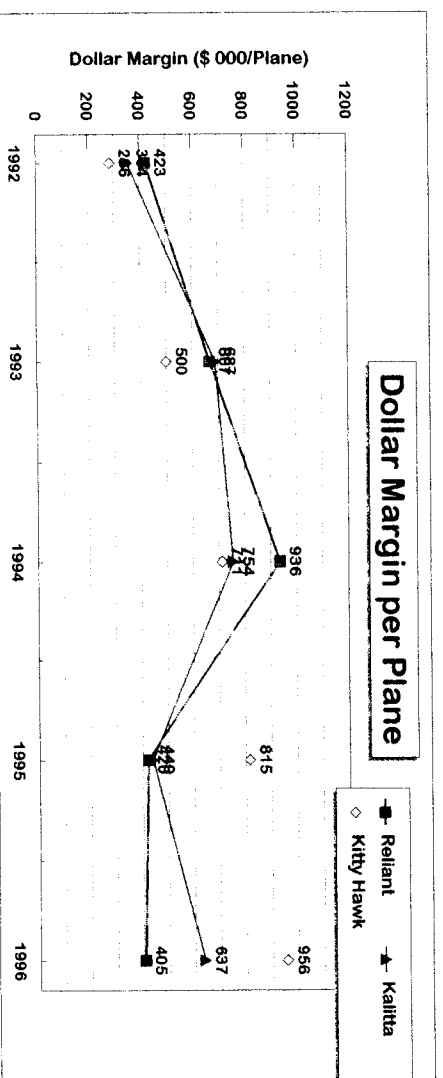


Fleet Comparison - Margin

- Margin on Revenue Fleet (excluding depreciation)



- Margin on Per Plane (to gauge relative aircraft value)



Note Kalitta's low margin despite the larger size of its fleet. Kitty Hawk's margin has increased with the increased weighted size of its fleet.



Reliant Airlines

KITTY HAWK

Following is Reliant Airlines rate schedule for AD-HOC, non-contract flights effective May 1, 1997:

<u>AIRCRAFT TYPE</u>	<u>RATE PER MILE</u>
CARGO FALCON 20	\$4.18 *

In addition to the above base rate, the following charges also apply:

Short Leg Charge
for each leg from:

1 - 50	miles	=	\$500.00
51 - 100	miles	=	\$350.00
101 - 150	miles	=	\$300.00
151 - 200	miles	=	\$250.00

Waiting time: \$125.00 per hour, billed per 1/4 hour (first hour is free)
Crew layover: \$250.00 per 24 hours

Loading/Unloading: As billed to Reliant Airlines - direct pass through
Landing/Ramp fees: As billed to Reliant Airlines - direct pass through
International fees: As billed to Reliant Airlines - direct pass through

Airport charges
Newark = \$160.00
Boston = \$140.00
Ohare = \$100.00

Cancellation charges: Before engine start = \$250.00
Before takeoff = \$500.00

Terms: Net 30 days

*Volume Discount Minimums: January through May and July 100,000 miles per month
June and August through December 150,000 miles per month

When the cumulative mileage flown for each individual month exceeds minimum, Reliant Airlines will issue a credit memo at the end of the month which will reflect the difference between the tariff rate of \$4.18 per mile and the volume discount rate of \$3.95 per mile multiplied by the miles billed during the month.

Federal Excise Tax: 6.25% is charged on Domestic flights only. This includes charges for miles flown, landing/parking/ramp fees, waiting, short legs and cancellation fees.



Reliant Airlines

KITTY HAWK

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	Ohare = \$100.00

Cancellation charges:	Before engine start = \$250.00
	Before takeoff = \$500.00

Terms: Net 30 days

*Volume Discount Minimums:	January through May and July	100,000 miles per month
	June and August through December	150,000 miles per month

When the cumulative mileage flown for each individual month exceeds minimum, Reliant Airlines will issue a credit memo at the end of the month which will reflect the difference between the tariff rate of \$4.18 per mile and the volume discount rate of \$3.95 per mile multiplied by the miles billed during the month.

Federal Excise Tax: 6.25% is charged on Domestic flights only. This includes charges for miles flown, landing/parking/ramp fees, waiting, short legs and cancellation fees.